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TESTIMONY OF JACQUELINE R. CHERRY
FOR
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 2004-2-E
IN RE: SOUTH CAROLINA ELECTRIC & GAS COMPANY

Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS AND POSITION WITH THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA?

A. My name is Jacqueline R. Cherry. My business address is 101 Executive Center Drive, Columbia, South Carolina. I am employed by the Public Service Commission of South Carolina, Audit Department, as an auditor.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a B. S. Degree in Business Administration, with a major in Accounting from Johnson C. Smith University in 1976. I was employed by this Commission in February 1979, and have participated in cases involving gas, electric, telephone, water and wastewater utilities.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 **A.** The purpose of my testimony is to summarize the results of the Audit
4 Staff's examination of South Carolina Electric & Gas Company's Fuel
5 Adjustment Clause operation for the period March 2003 through April
6 2004. The findings of the examination are contained in the Audit
7 Department's section of the Commission Staff Report.

8 **Q. WHAT WAS THE SCOPE OF YOUR AUDIT?**

9 **A.** The Audit Department Staff traced the information as filed in the
10 Company's required monthly filing, to the Company's books and
11 records. The current examination covered the period March 2003
12 through April 2004. However, since this current hearing was
13 scheduled for April 2004, Staff's audit work did not include any testing
14 for the months of March and April 2004. The purpose of the audit was
15 to determine if South Carolina Electric & Gas Company had computed
16 and applied the monthly Fuel Adjustment Clause in accordance with
17 the approved clause. To accomplish this, Staff examined the
18 components surrounding the operation of the clause.

19 **Q. WHAT WERE THE STEPS THAT THE STAFF EMPLOYED WITHIN**
20 **THE SCOPE OF THE AUDIT?**

21 **A.** The examination consisted of the following:
22 1. Analysis of Account # 151 – Fuel Stock
23 2. Sample of Receipts to the Fuel Stock Account – Account # 151
24 3. Verification of Charges to Nuclear Fuel Expense, Account #
25 518
26 4. Verification of Purchased Power & Interchange
27 5. Verification of KWH Sales
28 6. Analysis of Spot Coal Purchasing Procedures

1 7. Recomputation of Fuel Adjustment Factor and Verification of
2 Deferred Fuel Costs

3 8. Recomputation of True-up for the Over (Under)-Recovered
4 Fuel Costs

5 9. Details of Fuel Costs
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8 **Q. WITH REGARD TO THE TRUE-UP OF OVER/(UNDER)-**
9 **RECOVERED FUEL COSTS, WOULD YOU PLEASE ELABORATE**
10 **ON STAFF'S COMPUTATION?**

11 **A.** Staff analyzed the cumulative (under)-recovery of fuel costs that the
12 Company had incurred for the period March 2003 through February
13 2004, which totaled (\$15,099,348). Staff added the projected (under)-
14 recovery of (\$2,164,230) for the month of March 2004 and the projected
15 (under)-recovery of (\$1,512,720) for April 2004 to arrive at a cumulative
16 (under)-recovery of (\$17,429,464). The Company's cumulative (under)-
17 recovery as of April 2004, per its testimony in Docket No. 2003-2-E
18 {Exhibit No. – (JRH-1)}, totals \$(22,862,377). The difference between
19 the Company's and the Staff's cumulative (under)-recovery totals
20 (\$5,432,913). This difference is based on a carry-forward of various
21 Purchase Power corrections made by Staff in Docket No. 2003-2-E for
22 the period March 2002 through February 2003 that did not appear on
23 SCE&G 's testimony exhibits (because these were corrections
24 contested by the Company) and SCE&G's recently signed 60% - 40%

1 Stipulation on fuel cases in 2003 and 2003 in the amount of \$
2 25,618,063. Staff's Exhibit G, Computation of Unbilled Revenue, which
3 consists of 4 pages, provides detailed explanations for this cumulative
4 (under)-recovery difference.

5 As stated in South Carolina Electric & Gas Company's Adjustment for
6 Fuel Costs, fuel costs will be included in base rates to the extent
7 determined reasonable and proper by the Commission.

8 Accordingly, the Commission should consider the (under)-recovery of
9 (\$17,429,464) along with the anticipated fuel costs for the period May 1,
10 2004 through April 30, 2005, for the purpose of determining the base
11 cost of fuel in base rates effective May 1, 2004. This (\$17,429,464)
12 (under)-recovery figure was provided to the Commission's Utilities
13 Department.

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18 **Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN THE**
19 **ADJUSTMENTS ON STAFF AUDIT EXHIBIT G?**

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21 (1) Staff's cumulative (under)-recovery balance brought forward from
22 February 2003 of (\$16,421,821) differs from the Company's beginning
23 cumulative (under)-recovery balance (from February 2003) of

1 (\$21,878,559) by (\$5,456,738). This cumulative difference was based
2 on Staff's corrections to Fossil Fuel Burned Costs and Purchased Power
3 Costs for several months, as reflected in the last fuel review period. It
4 should be noted that the Company, in its testimony, reflects cumulative
5 corrections of \$38,245 in May 2003. A portion of this figure, \$ 23,825
6 are corrections that the Company agreed with Staff from the last review
7 period. The remaining \$ 14,420 are Company true-ups corrections for
8 previous months.

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10 (2) Staff's Purchased Power figures for March 2003 through February
11 2004 and the resultant over (under)-recovery monthly deferred fuel
12 amounts for March 2003 through February 2004 reflects Staff's
13 compliance with the recently revised section of the S.C. Fuel Statute
14 (updated as of February 2004). This Statute addresses "fuel costs
15 related to purchased power". Section 7 (2)(b) of the revised Statute
16 stated that the delivered cost of economy purchases, including
17 transmission charges, could be included in Purchased Power Costs if
18 those type of purchases were proven to be "less than the purchasing
19 utility's avoided variable costs for the generation of an equivalent
20 quantity of electric power". After Staff applied this revised Statute to the
21 examined economic purchases along with the applicable avoided cost,
22 Staff's adjustment to Purchased Power Costs, on a total system basis,

1 totaled \$ 4,055. As mentioned previously, according to the new Statute
2 section, transmission charges could be included in the delivered cost of
3 economy purchases. The Company's per books, economic purchases
4 included wheeling (transmission) charges for the review period. The
5 Audit Staff did examine and include economy purchases' transmission
6 charges totaling \$ 998,623. Also, based on the new Statute section,
7 after comparing the economy purchases (with the additions of
8 transmission charges) to the Company's applicable avoided costs,
9 Staff's avoided costs adjustment still totaled \$ 4,055. This figure reflects
10 the usage of an avoided cost as a lesser price, at that point in time, over
11 a purchase price. Staff examined the Company's monthly avoided cost
12 figures and based on a comparison against the Company's economy
13 purchases, Staff's avoided cost adjustment totaled \$ 4,055. After Staff's
14 adjustments, on a S.C. jurisdictional basis, Staff's cumulative (under)-
15 recovery balances, as of actual February 2004 totaled (\$ 15,099,348)
16 and as of estimated April 2004 totaled (\$ 17,429,464). The Company's
17 cumulative (under)-recovery balance, on a S.C. jurisdictional basis, as of
18 actual February 2004, per its testimony in Docket No. 2004-2-E, totals (\$
19 20,532,261) and as of estimated April 2004 totals (\$ 22,862,377). The
20 respective cumulative (under)-recovery balance difference, on a S.C.
21 jurisdictional basis, between the Staff and Company as of actual
22 February 2004 and as of estimated April 2004 is (\$5,432,913). Staff

1 notes that this difference was due to corrections contested by the
2 company.

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6 (3) In May 2003, August 2003 and Sept. 2003 the Company had true-
7 ups for various Company corrections to such costs as Fossil Fuel Costs
8 and Purchased Power Costs calculations that were applicable to
9 corrections made to Fossil Fuel Costs.

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11 (4) For each month of the review period, the Plant Urquhart Fixed
12 Capacity Gas Transportation Charge of \$ 673,417 is deducted from
13 each monthly deferred fuel entry per PSC Order No. 2003-38 (The
14 Company's latest rate case).

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20 **Q. MRS. CHERRY, WOULD YOU PLEASE DESCRIBE THE REMAINING**
21 **STAFF EXHIBITS?**

22 **A.** Staff prepared exhibits from South Carolina Electric & Gas Company's
23 books and records reflecting fuel costs during the review period.
24 Specifically, these exhibits are as follows:

- 1 Exhibit A: Total Received & Weighted Average Cost
- 2 Exhibit B: Received Coal-Cost Per Ton (Per Plant)
- 3 Exhibit C: Received Coal-Cost Per Ton Comparison
- 4 Exhibit D: Burned Cost-Consumed Generation
- 5 Exhibit E: Cost of Fuel
- 6 Exhibit F: Factor Computation
- 7 Exhibit G: Computation of Unbilled Revenue

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9 **Q. MRS. CHERRY, WHAT WERE THE RESULTS OF THE AUDIT**
10 **DEPARTMENT'S REVIEW?**

11 **A.** Based on the Audit Staff's examination of South Carolina Electric & Gas
12 Company's books and records, and the utilization of the fuel cost
13 recovery mechanism as directed by the Commission, the Audit
14 Department is of the opinion that the Company has complied with the
15 directives (per the Fuel Adjustment Clause) of the Commission.

16 **Q. MRS. CHERRY, DOES THIS CONCLUDE YOUR TESTIMONY?**

17 **A.** Yes, it does.